

Yarmouk University
Faculty of Economics and Administrative Sciences
Department of Banking and Finance

Stocks Market Reaction to Seasoned Equity Offerings: The Case of GCC Markets.

"ردة فعل الأسواق المالية للاصدارات الموسمية:
دراسة حالة دول مجلس التعاون الخليجي"

By
Ayham Taher Al-Issa
Supervisor
Prof. Mona M. Al-Mwalla

This Thesis is Submitted in Partial Fulfillment of the Requirements for the Degree of Master of Banking and Finance Sciences, Yarmouk University.

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By: Ayham Taher Mohammad Al-Issa

B.Sc Computer Information Systems and a minor in Banking & Finance

Sciences, Yarmouk University 2011.

This Thesis is submitted in Partial Fulfillment of the Requirements for the Degree of

Master of Banking and Finance Sciences, Yarmouk University.

Committee:

Prof. Mona M. Al- Mwalla.......................................Chairman

Professor of Finance, Yarmouk University.

Prof. Mohamad M. Ajlouni.......................................Member

Professor of Finance, Yarmouk University.

Prof. Ahmad M. Al-Omari.......................................Member

Professor of Accounting, Yarmouk University.

27th, Oct, 2014

Dedication

My sincerest thanks to my family and my parents. **My dad** for his moral support, **my mom** for all that she had done and gives to me, to **my brothers** Albra 'a, Ahmad, Mohammad, Adham, Alyaman and the new guests Iyas and Jwan. Also I dedicate this work to the most special **Prof. Dr. Mona Al- Mwalla,** for all help, guidance, support, and confidence.

I would like to thank the committee members who accept to devote time and effort to read and comment on my work.

Acknowledgment

First and foremost, utmost thankfulness to my creator God; Allah almighty, for all his gifts and blessing to the human kind, and for giving me a sound mind which helped me trying to take a small tour in his indefinite divine wisdom word. My gratitude to the beloved prophet Mohammad (peace and blessing of Allah be upon him) who was sent by Allah to be a great teacher to mankind.

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Ayham Taher Al-Issa

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List of abbreviation

SEO	Seasoned Equity Offering
IPO	Initial public offering
CARs	Cumulative Abnormal Returns
SEC	Securities and Exchange Commission
EMH	The Efficient Market Hypothesis
KSE	Kuwait Stock Exchange
BSE	Bahrain Stock Exchange
MSM	Muscat Securities Market
DSM	Doha securities Market
ADSM	Abu Dhabi Security Market
DFM	Dubai Financial Market
NBO	National Bank of Oman
IFC	International Finance Corporation
NBK	National Bank of Kuwait
KSC	Kuwait National Cinema Company
UAE	United Arab Emirates
LNG.	liquefied natural gas
SDC	Securities Data Corporation
AMEX	American Stock Exchange
NYSE	New York Stock Exchange
CRSP	Research in Security Prices
AARs	average abnormal returns
BOD	board of directors
NPM	net profit margin
OPA	operating income on assets
OPM	operating margin
ROA	return on assets
ROE	return on equity
GCC	Gulf cooperation Council
AR	Abnormal Return

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Abstract

The main purpose of this study is to examine the stock market reaction to Seasoned Equity Offerings (SEOs) on the short-run, by seeking for any statistically significant abnormal returns around SEOs for a sample of financial and non- financial firms listed in GCC capital markets, during the period between 2003 to 2012.

CAR equations and Event study methodology have been used to test the stock market reaction to SEOs for a final sample of 66 SEOs.

The study results indicate that there are no statistically significant abnormal returns before SEOs, and the SEO are positive and non-significant. However; there has been a significant negative abnormal return after the SEOs.

Keywords: Seasoned Equity Offerings (SEOs), Abnormal Returns, Gulf Cooperation Council (GCC).

Chapter One

General Overview

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General Overview

1.1. Introduction

There are many sources of funding, external funding using debt such loans or bonds; this has one advantage over the equity offerings in that it is a tax deductible. Internal funding such retained earnings are considered as the cheapest source among the sources of funding and equity offering is considered internal source of funding through issuing common stock or preferred stock, which is considered the most expensive amongst the sources of funding.

An analysis of stock-market performance reveals that offering firms outperform the market before the issue, although that the market responds negatively to the SEO announcement and underperform the market in the long run.

According to Miller and Modigliani (1958) argument, which is based on an efficient capital market, the stock prices are affected by the firm's capital structure. The capital structure is defined as the mix of debt and equity that is

used to finance the firms' activities, which has an effect on stock price reaction.

The signaling theory of MM (1958) postulates that equity offering is one of the main factors that affect the stock price. This indicates the market reaction obtained from the funding strategies that is followed by firms. Other factors have an effect on stock price such as dividend policy and earning announcement.

According to Miller and Modigliani (1963), the sources of funding affect the market reaction in an imperfect capital market by sending a signal to investors on firm performance. Using debt to sends a good signal to shareholders; Issuing equity sends a bad signal to shareholders.

Teoh et al. (1998) suggest that firms issuing equity have an incentive to manage earnings and send a false signal to the market that the firm is an attractive investment opportunity.

Other researchers have documented that companies conducting Seasoned Equity Offering (SEO) have extremely low stock returns during the period after the offering. Subba Reddy (2004) investigated the behavior of seasoned equity offering firms in India, which indicates firms manage earnings upwards before the equity rights issue. These pre-issue earnings management might lead to post-issue earnings underperformance, which cause inefficient resource allocation in the economy.

In addition, Li and Zhao (2006) investigate the long run underperformance of stocks after SEOs in U.S, and report that the abnormal returns after SEOs are not significant and there are underperformance abnormal returns that reflect poor operating performance after issuing SEOs.

1.2. The Research Problems

Issuing new equity is one of the sources for raising capital of the firm without need for issuing bonds.

The research investigate the relationship between equity offering and stock price reaction in the GCC stock exchanges, which affected by the strategies and theories that is used and applied by the firm such as capital structure and earnings announcement.

This study attempts to provide the answer to the following question:

1. How does GCC market react to SEOs?
2. Is there a significant relationship between SEO performance and the GCC market performance?
3. How does the Saudi Arabia market react to SEOs?
4. How does the Kuwait market react to SEOs?

1.3. The Research Importance

The reaction of the stock's price or the market to SEOs is important for investors to build their investment strategy and funding; besides of issuer to know the right issue timing and pricing of the issue is a great importance. This kind of research provides an indirect test for market efficiency in GCC countries. In addition, the GCC stocks exchange has high liquidity makes it important to see if the stocks reaction to SEO will be similar to that in other markets.

According to the researcher knowledge, no prior studies have investigated the relationship between equity offering and stock price reaction in the GCC stock exchanges. Therefore, this study is considered among the first to investigate this relationship.

1.4. The Research Objectives

The main objectives of this study are to investigate the impact of equity offering on stock price reaction in the GCC stock exchanges. Other objectives are:

1. Examining investors' attitudes after SEOs in the GCC stock exchanges.
2. Examining the relationship between investor's preferences investment strategy and stock market reaction to SEOs.

1.5. Sample and Data

The sample consists of 66 financial and non-financial firms that offer SEOs and are listed at the GCC stock exchanges during the period (2003-2012). The data was used is a daily closing prices and daily market indexs, it is considered as a secondary data (www.gulfbase.com), which collected from quarterly and annually financial and market information. The following table shows the GCC countries and the number of firms in each one that used in the sample:

Table (1-1) Number of issued firms in GCC countries

Country name	No. of issuance firms
Saudi Arabia	16
Kuwait	12
Qatar	9
Bahrain	7
Oman	5
Dubai	9
Abu Dhabi	8

1.6. The Research Hypotheses

Null Hypothesis

H1: There are no significant abnormal returns before and after SEOs in GCC country.

Sub-hypothesis

H1a: There is no significant abnormal return until 21 days before SEOs in GCC.

H1b: There is a significant abnormal return until 21 days after SEOs in GCC.

Moreover, to see if single market performance is different from the markets with the larger number of SEOs are selected.

H2a: There is no significant abnormal return until 21 days before SEO in Saudi market.

H2b: There is a significant abnormal return until 21 days after SEOs in Saudi market.

H3a: There is no significant abnormal return until 21 days before SEOs in Kuwait market.

H3b: There is a significant abnormal return until 21 days after SEOs in Kuwait market.

1.6. The Research Methodology

In this study, the model that is used to test the reaction of seasoned equity offerings depends on event study approach using Cumulative Abnormal Returns (CARs) associated with the SEO as indicator for stock behavior. Cumulative Abnormal Returns (CARs) is applied as method of evaluating the short-run performance of securities.

The daily returns for all events in the search window are calculated as follow:

$R_{it} = (P_t - P_{t-1})/P_{t-1}$

Where:

Rit: daily return.

Pt: is the closing price of the stock at day t.

Pt-1: is the closing price of the stock at day t-1.

The return for issue for event in the research window by subtracting the actual return from the market return.

$AR_{it} = R_{it} - R_{mkt,t}$

Where:

ARit: abnormal return of stock i at time t.

Rit: return on stock i at time t.

Rmkt, t: return on market index at time t.

The average benchmark return on a portfolio of N firms for the daily event is calculated as follows:

$$AR_t = \frac{1}{N}\sum_{i=1}^{N} AR_{i,t}$$

ARt: is the equally weighted and value-weighted arithmetic mean of the benchmark-adjusted returns.

The cumulative abnormal return (CAR) is estimated for a certain period from day (i) to day (1) by adding the average rate of return over the time window as follows:

$$CARt = \sum_{t=1}^{T} AR$$

Where:

CARt: Cumulative Abnormal Return from day (1) to day (T).

To test the hypotheses that are shown above, the abnormal return "event study" is calculated to test the significant relationship between the SEOs and stock market reaction. Many researches applied this methodology like Li and Zhao (2006), Asquith and Mullins (1986), Ong et al. (2011) and Chaplinsky and Ramchand (2000).

Chapter two represents the theoretical framework of the research that summarizes the types of securities market, review of capital structure theories and the historical development of GCC markets.

CHAPTER TWO

THEORETICAL FRAMEWORK

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THEORETICAL FRAMEWORK

2.1. Introduction

This chapter presents the research theoretical framework. The second section discusses the security markets. After that, the researcher discusses the instruments available for issuer such as initial public offering and seasoned equity offering. Then the capital structure theories are presented. The last section is devoted for providing a historical review of Gulf countries markets.

2.2. Theoretical Framework

The primary goal of any company is to maximize shareholders wealth by increasing the stock price. Managers accomplish this by investing in new projects that can be financed whether by debt or equity. In certain cases, managers directly peruse their decisions to achieve their own objective, rather than achieving stockholders objectives, this conflict of interest is referred to agency problem.

Initial public offerings (IPOs) are considered as the first sale of the share by a private firm to the public. Regardless of the type of the firm work or the firm size "small, medium or large", any firm should be traded its shares in the market through initial public offering "IPO" (Brigham and Ehrhardt, 2013).

If the firm wants to rise up the funds and increase the capital, it does that through the issue of new shares and sells it in the market. That is called Seasoned Equity Offerings "SEOs".

(SEOs) are a new issue of shares of a listed company. In other word, it is an issue of extra securities from an established corporation whose securities already traded in the secondary market. It is the selling of shares after the IPO. It means to raise funds through the process of selling shares instead of issuing supplementary liability (Brigham and Ehrhardt, 2013).

The process of issuing shares is conducted in the security market; the following sections provide a review of different types of markets.

2.3. Securities Market

Stock market brings people and organizations that need money with those who have surplus funds. These markets are classified depending on the type of instrument they are dealing with, the geographical area they are concerning, the timing of transaction and so for (Brigham and Ehrhardt, 2013).

2.3.1. Physical Asset Markets (Tangible Markets)

Market or tangible physical assets markets also called real assets; these contracts involve products such as wheat, cars, computers, state, and real machines. Also, these markets conclude stocks market like bonds, stocks, notes, and other financial instruments (Harris, 2002).

2.3.2. Spot Markets and Futures Markets

The buying and selling process involves the delivery a few days or such later date as six months or more in the future (Harris, 2002).

2.3.3. Money Market.

This market is part of the financial market. Money market is defined as when Short-term maturities of financial instruments and securities that are traded in these market. The maturities of the financial instruments are traded in this market maturing within one year or less. This market is considered as the best source to invest in liquid assets (Fuller and Farrell, 1987).

2.3.4. Primary Markets

Primary markets are markets in which companies raising new capital. If any company needs to sell a new issue of ordinary shares to raise extra capital, this will be a primary market transaction. The initial public offering is occurring in primary market (Gitman, 2011).

2.3.4.1. Public Offering

The public offering is when to sell private securities to the public. The company sells the shares or other securities to the public to raise funds to develop the organization and to do further investment. The company that wants to sell securities issued in the form of public offer must register the securities and be approved by the Securities and Exchange Commission (SEC) (Rose, 2008).

2.3.4.1. Rights Offering

A rights issue is an issue of rights to purchase additional shares in a company made to the holders of the existing shares of the corporation. This type is issued to stockholders that obtain it to buy extra stocks, generally at a discount to market price in the rights offering. Holders of existing shares have the privilege to buy a number of new shares in the company at a specified price within a specified period (Gitman, 2011).

2.3.4.2. Private Placement

The sale of securities to a small number of selected investors is a way to raise capital. Private placement is the opposite of a public issue; where the securities are sold on the open market. Investors involved in private placements are usually large banks, mutual funds, insurance companies, and pension funds. The Details of the financial information of the private placement are not disclosed and the placement is not appropriated in the SEC (Gitman 2009).

2.3.5. Secondary Market

In this market, the investors buy securities or assets from other investors, instead of from issuing firms themselves.

The secondary market gives shareholders or owners the choice to sell the securities to others. In this case, the shares are firstly purchased by the investors directly from the investment bank, and then the shares traded

between investors themselves in the secondary and stock prices are determined by supply and request that buyer give liquidity safety (Harris, 2002).

2.4. Securities Issuance

It is a method of external funding through the issuance of financial instruments such as bonds or stocks. Companies need to raise capital for expansion; access of new projects or to pay their debts (Gitman, 2011).The issuance type will be explained in details. The first type is the initial public offering "IPO" where the securities are issued for the first time. The second is investment in seasoned equity (SEO), which is an outstanding company that issues more shares.

2.4.1. Initial Public Offerings (IPOs)

An IPO is a type of publicly offer shares of a company, which is sold to the general public on a stock exchange for the first time: to maximize capital and spread risk by letting other investors participating. This happens to a small business that wants to be large and is seeking for expansion (Ritter, 1991).

2.4.2. Seasoned Equity Offering (SEO)

Seasoned Equity Offerings (SEOs) is process of sell shares after the IPOs. It means to raise funds through the sale of shares instead of issuing additional debt (Abraham and Harrington, 2011).

Seasoned equity offering (SEO) is an extra issue of shares, which is also still in the primary market and aims to raise new capital (Brigham, 2011).

SEO is identified as when a public firm offers new shares for sale. The aim of this public firm of SEO is to raise an extra equity, and it will follow many of the same steps as for the IPO. The main difference between IPO and SEO is that the market price for the stock is previously founded, so the price-setting procedure is not required.

There are two types of seasoned equity offering (Berk and DeMarzo, 2011):

1. Cash Offering

In this type, a company offers, in general, new shares to investors.

2. Rights Offer

This type involves the offer by the company to existing shareholders only; this type is considered as a kind of protection to existing shareholders from undervaluation.

Seasoned Equity Offering is expensive but not like initial public offering. IPO is more expensive than SEO, and Cash offer is more expensive than Rights offer.

The decision to go for equity funding rather than debt funding is an important decision, since (Modigliani-Miller, 1958) critical articles on the relationship between debt level versus equity, financing and firm's value have been developed. Therefore, the following section presents the main theories related to SEO decision.

2.5. Review of Capital Structure Theories

The capital structure is the mix of debt and equity (Niu, 2008). There are many of theories presents the capital structure, some of these theories are explained in the following section.

2.5.1. Modigliani-Miller (M&M)

This theory is considered the starting point of the modern theory of capital structure. Modigliani and Miller (1958) show that under certain key assumptions the value of the company is unaffected by the capital structure. The capital market is assumed to be perfect in MM world where locals and foreigners (insiders and outsiders) have an symmetric information; no transaction costs or bankruptcy costs .There are tax distortions; equity and debt choice become irrelevant, and the internal and external funds can be completely substituted (Modigliani & Miller, 1958).

2.5.2. Signaling Theory

According to MM, the theory supposes that investors have the same information on the prediction of a company and its manager. The information is said to be symmetric. Sometimes, it is possible that the managers have better information and more accurate information from external investors, which are called asymmetric information. Event that has a major effect on optimal capital structure, nonpublic information allows administrators to achieve abnormal returns at the expense of outside investors. This theory postulates that the company has used announcement stock in the funding process is generally considered as a signal seen by the management that is not good; And vice versa. A debt offering is seen as a positive signal to invest in that company (Brigham and Ehrhardt, 2013).

2.5.3. Agency Theory

According to Jensen and Meckling (1994), the agency theory arises from the separation of firms' ownership between managers and shareholders. With expansion of the firm operating activity, the shareholders delegate the responsibility to managers to make the necessary decisions. The manager is considered as the agent of shareholders; hence, the ownership is separated from management. As a method of controlling actions of managers, modern corporate theory has set a main goal for a corporation, which is maximizing the shareholders wealth or firm value.

The conflict between managers and shareholders is created by the separation of ownership. Managers must take the best decision to achieve the fundamental objective of firms not building their empire through maximizing their wealth rather than the shareholders wealth .Therefore, the conflict exists if the manager makes the decision for self-interest not for the firm objective.

2.5.4. Pecking Order Theory

Existence of asymmetric information and flotation cost can cause a company to raising capital by adopting the pecking order theory. In this case, the company uses first internal capital through the reinvestment of its net income and the sale of short-term marketable securities. When the internal funds are scheduled then the company will maybe issue preferred stock, issue debt, or as last solution common stock (Brigham and Ehrhardt, 2013).

2.5.5. The Efficient Market Hypothesis (EMH)

Fama (1970) states that the market prices adjusts to the new intrinsic value so fast and there is no time for an investor to receive new information, get a place in the capital before the change in the market price, evaluate information and then benefit from later price changes. This theory assumes that shares price replicates several new pieces of information directly.

EMH assumes that:

1. Stocks are always in equilibrium
2. It is impossible for an investor to "beat the market" and make a higher rate of return than is justified by the risk of action. Shares market prices will always equal to their substantial value (Jensen, 1978).

There are three different types of EMH, which are based on the accessibility and cost of information. These three types are as follows:

1. Weak-Form of Efficiency

This type "weak efficiency" indicates that all information contained in the movements of the price in the past is fully reflected in the current market price. The weak form of efficiency states that current market prices reflect all information of past information of trading. None of the actors or the market participants can achieve excess profit beyond the expected benefits using last exchanged Information because this information is freely available to everyone.

2. Semi Strong-Form of Efficiency

According to the semi-strong form, the publicly available information will reflect the current market price. Thus, if there is semi-strong form, it will not be good for review data from annual reports or other published data because market price has modified to any bad or good news in the report when the news came out. In this form, investor should be expecting

to make return suitable for the risk; otherwise, he should not imagine doing as good as or better than others should by chance. One more participation of this way is that each time the information is made public, stock prices respond just if the information is different from what was expected.

3. Strong-Form of Efficiency

This form of market efficiency claims that the current market prices will reflect all relevant information, if the private or public is concluded. Therefore, it is not possible for the insiders to get even abnormal return in the stock market in this way.

The theoretical background provides link between financing through SEO and capital structure theories

The following section presents the historical development of GCC stock markets.

2.6. The Historical Development of GCC Markets

Stock markets play an important position in the economy where it operates as a channel transferring money from investors (shareholders) to borrowers (companies). The Gulf Cooperation Council "GCC" markets have a short history in comparison to other global financial markets.

Generally, these markets had been regulated and structurally changed since the late 1990s (Alharbi, 2009).

The GCC is an oil region with the biggest oil reserves around the world (486.8 billion barrels) performing 35.7% of the whole world; whereas the Organization of Petroleum Exporting Countries (OPEC) representing 70% of total reserves for basic oil spare in the world. The GCC is ranked as the biggest producer and exporter of petroleum, and plays a leadership position in the world in general and mainly OPEC. All six countries of the GCC region have experienced rapid economic growth until 2014. From 2002 to 2012, the GCC economy has tripled to be $1.1 trillion. GCC countries represent 52% of total reserves of OPEC oil and 49% of total OPEC production of crude oil. For the GCC region, oil and gas account for about 73% of total export earnings, about 63% of government revenues, and 41% of GDP (Alanazi and Liu, 2013).

The following Table (2-1) shows information's about each market:

Table (2-1) Market Establishment, Number of listed firms in each market and Market Capitalization at end of 2013.

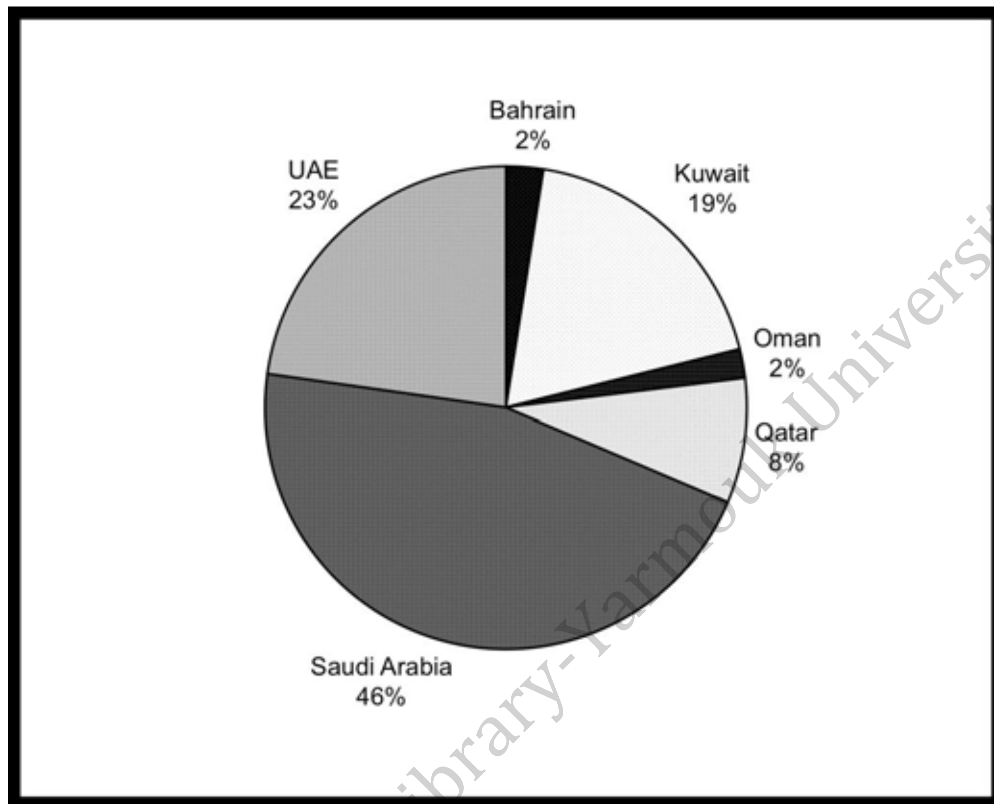
COUNTRY	Market	Year of Establishment	Number of listed firms in each market at end of 2013	Market capitalization at end of 2013. $ billion
Kuwait	Kuwait Stock Exchange (KSE)	1977	146	110.3
Saudi Arabia	Tadawul	1984	167	467.43
Bahrain	Bahrain Stock Exchange (BSE)	1987	44	18.5
Oman	Muscat Securities Market (MSM)	1989	122	36.7
Qatar	Doha securities Market (DSM)	1995*	43	152.5
UAE	Abu Dhabi Security Market (ADSM)	2000	65	109.3
UAE	Dubai Financial Market (DFM)	2000	56	70.7
* : activities started at 1997				

Sources - (Alanazi and Liu, 2013)
- (Tadawul, 2014)

GCC countries keep on with its program of economic transform by focusing on attracting investment from the national, regional, and foreign private sector in oil and gas, energy generation real estate sector, and telecommunications. The crisis in the global oil market due to the global financial and economic crisis has slowed down pace with investment projects and development, but the recent global economic recovery will lead to a strong recovery in economic activity in the region (Gulf Base, 2014).

Saudi Arabia has the lions share Overall GCC, where in 2007 it was recognized by 46% of the market capitalization of the region. On the other hand, Bahrain and Oman are the smallest markets with a combined total of less than 5% of the total market share (see figure 2-1).

Figure (2-1): Country Shares in combined GCC Stock Market



Source: (Alharbi, 2009)

The economies of the GCC countries are considered as developing economies countries, even if part of the oil-producing countries, which is characterized by a high degree of energy financing and average per capital income. As oil is the largest income source for the GCC countries, it is clear that the macroeconomic performance depends on what is happening in the field of evolution of oil prices.

Gulf States seek to maintain stable economies, exchange rates of their currencies, reducing inflation, and achieving an adequate return for investment aims to bring capital instead of continuing with efforts to protect the investment environment in the region.

The economy in the Arab Gulf countries is based mainly on oil and natural gas, where it has the largest oil reserves in the world and nearly 70% of OPEC reserves.

Doubled the size of the economy in the Arabian Gulf during the period 2002-2012 largely due to the rise in demand for oil and its prices, which led to an increase in oil revenues in the budgets of the (GCC) stood at 25.3% in 2008(Alanazi and Liu, 2013).

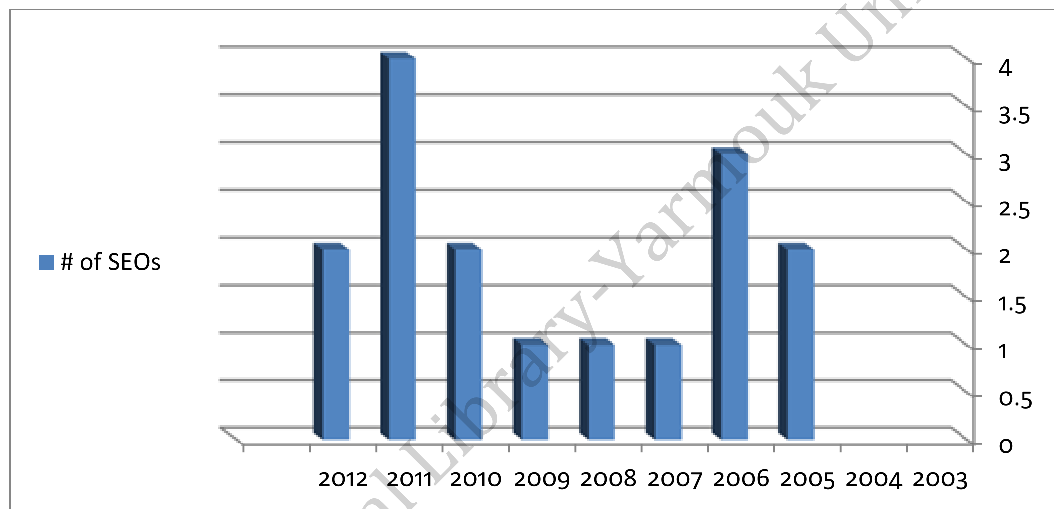
The following sections show the development of the stock market of each country.

2.6.1. Saudi Arabia Stock Market

Saudis corporations have their earliest origins in the mid-1930s, as the company "Arab Car" established itself as the first corporation. In 1975, there were approximately 14 public companies. The rapid expansion of the economy, in addition to the Saudisation of some foreign-owned banks in the 1970s led to the creation of a series of major companies and joint-stock banks. The market continued to informal to ever until the beginning of 1980 when the government undertook the formation of a trade regulated market with the necessary systems. Although the Saudi market is one of the largest markets of the Arabian Gulf and the Arab Word in general, it is classified as an emerging market (Alanazi and Liu, 2013).

The following figure shows an increase in the number of SEOs in 2006-2011 in Saudi Market; then it declines in the period of the global financial crisis 2008. In the period 2009-2012, the number of SEOs has been fluctuated between increase and decrease, and it was 2 in 2012.

Figure (2- 2) : Saudi Arabia SEOs



Source: developed by the researcher

The Saudi Market Arabia is one of the largest markets in the Arabian Gulf and the Arab world in general, thus its economy is depend on oil, and that's because Saudi Arabia has 25% of the oil reserves in the world and is considered as one of the major oil exporters.(Tadawul, 2014)

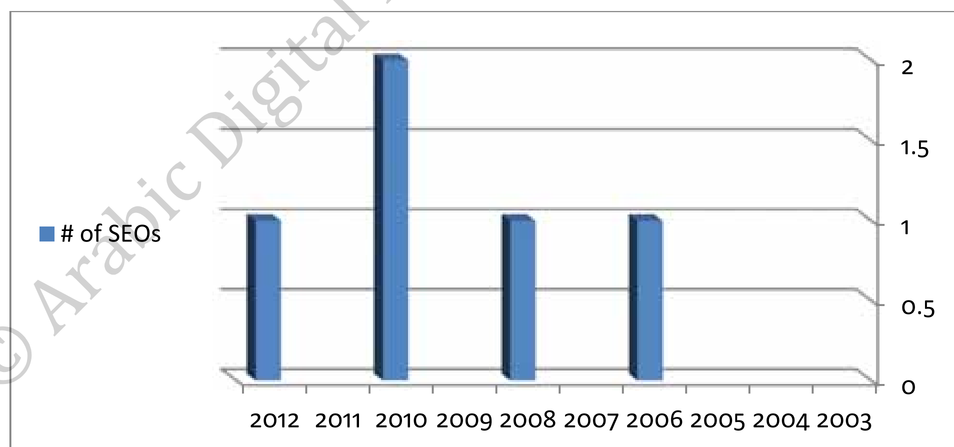
2.6.2. Oman

Muscat Securities Market (MSM) was recognized in June 1988 through a royal decree. Regulation is a fundamental law governing the formation of companies and stock issuance is managed by the Ministry of Commerce and Industry, the Ministry shall serve as Chairman of the Board of MSM.

The Sultanate of Oman Financial market started in 1973 with the founding of the first National Bank (NBO), then a number of these banks and the emergence of Public shareholding Companies increased at the beginning of the seventies lead to 1988 to the establishment of Muscat Securities Market to monitor firms, banks and supervising selling, buying, and pricing. Activity of Oman's economy is middle-income countries, which depends on natural gas and oil form so its 64% of exports.

The following figure shows the stability in number of SEOs in 2006, 2008, 2010 and 2012.

Figure (2-3): Oman SEOs



Source: developed by the researcher

During the period 2003-2005, 2007, 2009, 2011 there are no SEOs companies in the sample (Espinoza, 2012).

2.6.3. Bahrain

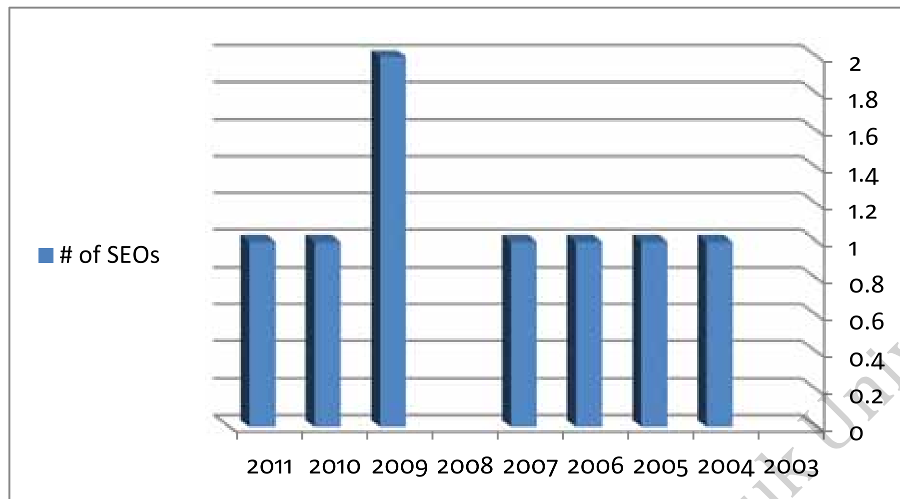
The Bahrain Stock Exchange (BSE) was recognized in 1987 by a Governmental rule Number 4 followed by a Ministerial rule Number 13 in 1988 (the By-Law). These rules created the structure of formal functioning and the future expansion of the Stock Exchange which was formally started on June 17, 1989. Bahrain is one of GCC's economic diversity, and that does not depend primarily on oil; has the lowest oil reserves of GCC countries (Alharbi, 2009).

Standard Chartered Bank was created as a branch of bank. In 1957, the first public firm in Bahrain was established, after the establishment of these companies continued to reach its peak in the first of eighties.

Bahrain Stock Exchange was set by the Government of the Kingdom of Bahrain and the International Finance Corporation (IFC) in 1987. Bahrain Securities Market was signed on December 25, 1996 a cross listing agreement with the Oman and Kuwait Stock Exchanges. The agreement was the first step to founding a unified Gulf Stock Market (Gulf base, 2014).

The following figure shows increase in number of SEOs in Bahrain stock exchange during the period 2003 to 2009:

Figure (2-4): Bahrain SEOs



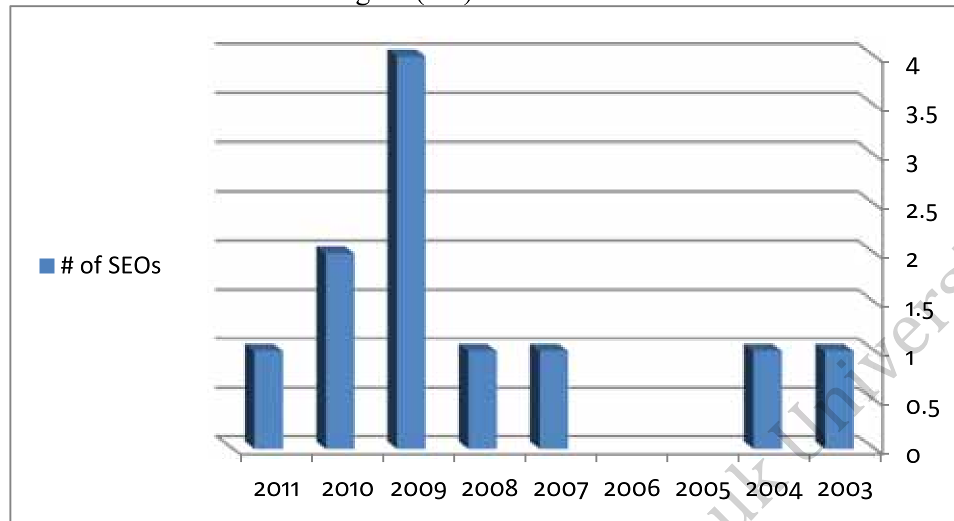
Source: developed by the researcher

2.6.4. Kuwait

The Kuwaiti public holdings of shares were structured in the 1950s. The procedures through public donation in 1952 for shares of National Bank of Kuwait (NBK), followed in 1954 by Kuwait National Cinema Company (KSC**).** Kuwait Stock Exchange was recognized in 1977, it has the second oil reserves after Saudi Arabia, and Kuwait's economy depends on oil which forms 95% of its exports. During the early sixties, oil was discovered and a significant increase in the number of firms, and issued laws governing the work of companies (National Bank of Kuwait, 2014) .

The following Figure shows the increase in number of SEOs in Kuwait during 2003 to 2009 then declining to 2011.

Figure (2-5): Kuwait SEOs



Source: developed by the researcher

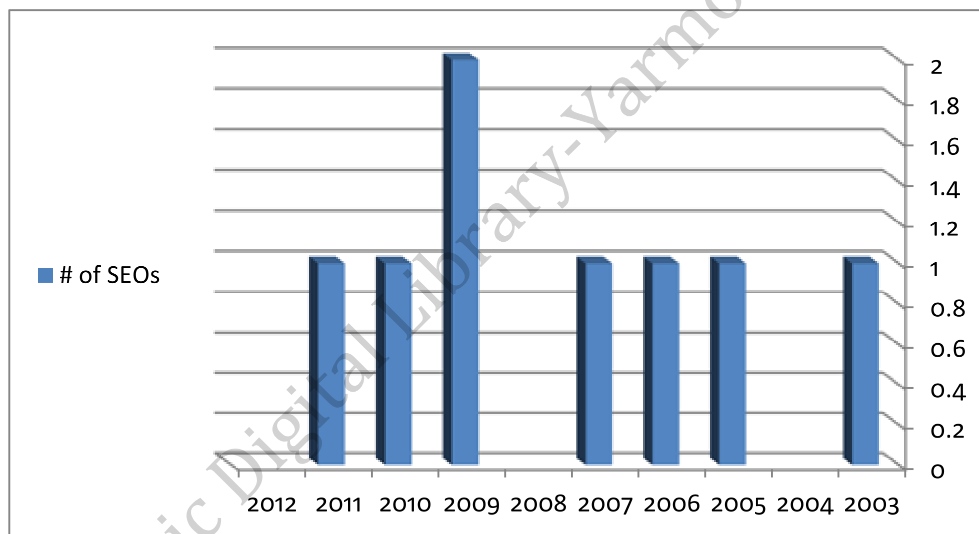
2.6.5. United Arab Emirates

United Arab Emirates (UAE) is a Federation included of seven emirates, Dubai, Sharjah, Abu Dhabi, Ajman, Ras Al Khaimah, Al Fujairah, and Umm al-Quwain. Dubai is the largest and richest economies of the United Arab Emirates, and followed by Abu Dhabi. Abu Dhabi Securities Exchange (ADX) was established in 2000. Abu Dhabi Securities Exchange aims to be the market of choice for the region and its task is to lead the development of the capital market in the UAE and the States of the region through the organization of the market in a legal framework that ensures completeness, transparency, and disclosure. Abu Dhabi Securities Exchange was recognized on November 15 - 2000 Law n. (3) 2000, whose provisions are acquired on the market with a separate legal entity, independent financial statement and management, and give ADX powers of supervision and management necessary to perform its functions. The UAE economy is the next biggest

economy in the region following Saudi Arabia, which recorded the highest rates of economic growth in the Arab area, due to the expansion of its exports of oil and natural gas during the period 2004-2008. UAE have two stocks exchange in Dubai and Abu Dhabi (Espinoza, 2012).

The following Figure shows the stability in number of SEOs in Abu Dhabi SEOs during the period from 2003 to 2012.

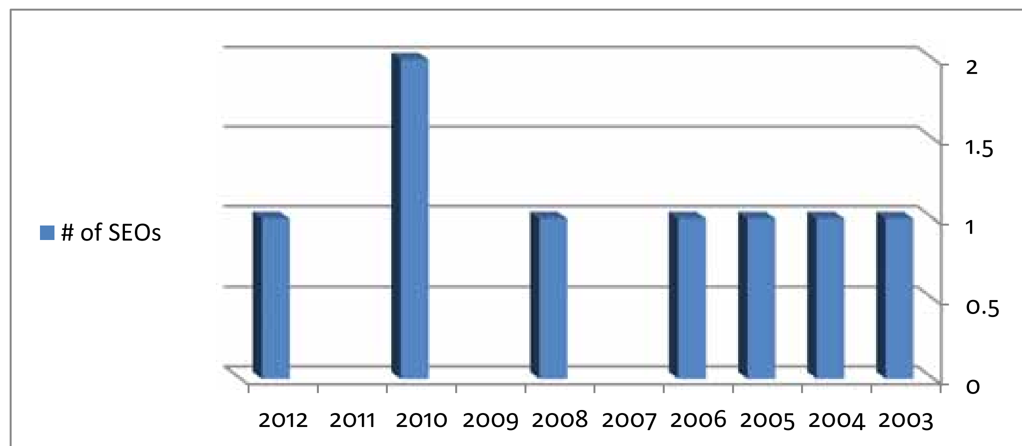
Figure (2-6): Abu Dhabi SEOs



Source: developed by the researcher

The following figure also shows the stability in Dubai SEOs during 2003 to 2012.

Figure (2-7): Dubai SEOs



Source: developed by the researcher

2.6.6. Qatar

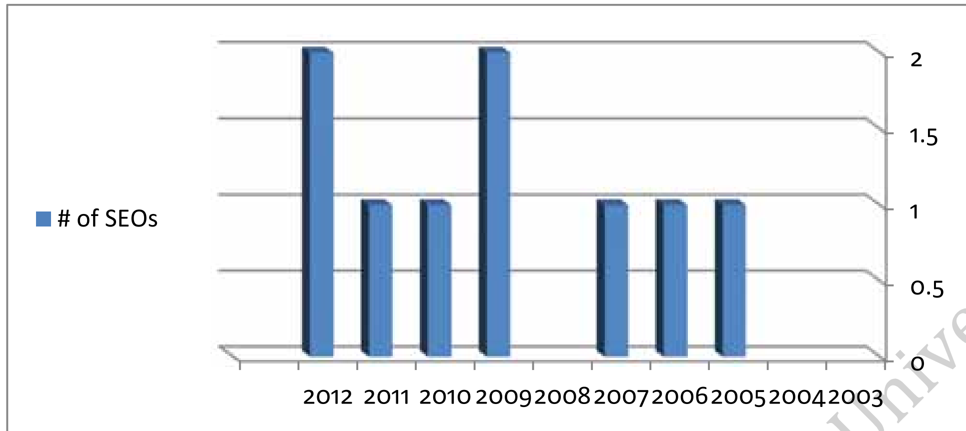
Doha Securities Market officially began operations May 26, 1997. Begin with seventeen companies and a market capitalization approximately about 6 billion Qatari riyals. The Trading begin manually and turned semi-electronic. In March 11, 2002, the execution of electronic commerce project has become fully electronic.

In 2008 there were 43 listed companies with a market capitalization of (279.03QR) million market, and increased to (555.6QR) billion in 2013 (Alanazi and Liu, 2013).

Qatar is considered as one of the fastest growing states and high-income In spite of its small country. It is also one of the richest countries in the Arab world. Qatar is the third largest gas field of more than 250 billion cubic feet of liquefied natural gas, and its GDP has grown rapidly in recent years due to strong demand for liquefied natural gas (LNG) (Alharbi, 2009).

The following figure shows the stability in SEOs number from 2005 to 2007, and then it shows an increase in 2009, and then shows stability from 2010 to 2012.

Figure (2-8): Qatar SEOs



Source: developed by the researcher

In this chapter, the researcher provides an overview about Seasoned Equity Offering and Initial Public Offering. Security markets are represented in details, also the security issuance and the theory that related to capital structure. In last section, the researcher provides an overview about the GCC markets that the research conducts and detects the development of SEO in these countries under investigation.

The following chapter will discuss the literature review that conducts the SEO and market reactions.

Chapter Three

Literature Review

Chapter Three

Literature Review

3.1. Introduction

Many of previous research over the years concentrated on studying the Seasoned Equity Offering (SEO) of firms and its earnings before interest and tax performance in different stock markets in different times.

This section provides literature review, which debates the seasoned equity offering subject and its relationship with companies' returns and performance.

3.2. Literature Review

Studies conducted in developed markets

Loughran and Ritter (1997) studied the operating performance of stock pricing of the issuing companies. The methodology was applied by matching each issuing company with non-issued company throughout the previous five years. The time line begins -4 to 4 years. The sample covered all seasoned offering listed in NYSE, NASDAQ, and AMEX from 1979 to 1989.

The results show that the operating performance of issuers shows an important improvement before placement. Often the offer does not reflect the expected performance.It further shows that issuers are disproportionately

high growth companies, but issuer's yields much lower than non-issuers with the same growth rate thereafter.

Chaplinsky and Ramchand (2000) aimed at investigating the impact of U.S firms issuing equity in multiple markets. They compare the stock price reactions to announcements of global equity offers to a control group of issues offered exclusively as they use sample of Securities Data Corporation (SDC) from 1986 to 1995. The results show that the adverse stock price reaction that companies equity issues is reduced by approximately 0.8 percent for global equity issues compared to domestic issues of similar size that are issued at approximately the same time. The results indicate that global issues offer a higher offer price relative to domestic issues.

Denis and Sarin (2001) studied the reaction of the share price on the returns of five years after SEOs. The research covered a period from 1982 to 1990, with a sample consists of 1,213 seasoned offerings of industrial companies in the United States. The abnormal returns are calculated as the difference between the business performance of the sample and the profitability of the matched control company. In addition, sensitivity tests, time series, and cross-sectional time are used.

The results show that there is no association between earnings announcement effects and the frequency of seasoned equity issues.

Moreover, the results show a negative long-run abnormal return after SEO. The SEOs returns of issuers are statistically significant difference during earnings announcement periods.

Gajewski and Ginglinger (2002) investigated SEOs in the French market. SEOs represent 90% of all common stock offering. The sample they used was consisted of uninsured rights, public offering, and rights with standby underwriting; they cover the period between 1986 and 1996. The results show the adverse selection effect is larger for seasoned equity offering than for initial public offering. In addition, the results show that the abnormal returns around the issuance date are significantly negative for seasoned offering, whether for standby offering or uninsured, but for public offering insignificant. Also, the results demonstrate that when the funds are used for an investment or for purchases, the market reaction is more positive.

Clarke et al. (2004) examined the long-term stock and operating performance after offers of secondary shares (SEO). Also, the researchers examine the operating performance of seasoned offering made by insiders and noninsiders. The research sample is consisting of seasoned equity offerings of common stock with a period between 1980- 1996 for seasoned equity offering firms listed in the American Stock Exchange (AMEX), in New York Stock Exchange (NYSE), or NASDAQ , and has security returns available from the Center for Research in Security Prices (CRSP).Buy-and-hold

abnormal returns and rolling calendar month portfolio methodology have been used.

The results show that the operating performance of SEOs firms decreases after announcement, the abnormal returns following secondary equity offerings are positive but not significant.

In addition, show the seller can be classified as an insider, both 3and 5year post issue abnormal returns are negative and significant. Moreover, the change in abnormal performance from the pre-issue to the post-issue period is significantly negative for the insider but not for the noninsiders.

Purnanandam and Swaminathan (2006) examined the relationship between the market underperformance and the negative information in the issuance of SEOs.

A cross-sectional regression was implemented; the CAR equation and some financial ratios with a sample consist of 1,967 SEOs offer from the period 1978 to2000 in the United States.

The results show that underperformance between the SEOs announcement and the market. Overvalued SEO shows a smaller decline in the market value on the day of the announcement, but SEO experience a further decrease in the following 5 years.

Frijns et al. (2006) investigated share price performance preceding to seasoned equity offerings issuance and between the issuance and real completion or withdrawal. The short-run stock price performance for a number of companies was tested in the period cover from 1984 to 2000 in New Zealand market.

The researchers used cumulative abnormal returns (CARs) to measure stock price performance. The results show firms that withdraw their offerings have poor stock price performance even before the issuance. The results show that stock price performance is strong only for companies that complete the offerings afterward. In addition, the results found that stock price performance for both the completed and the withdrawn offerings is poor after the issuance. Also, it shows that firms complete their equity offerings, even though their stock price performance deteriorates.

Li and Zhao (2006) investigated the long run underperformance of stock after seasoned equity offerings (SEOs). Using a sample of around 2000 offerings in the U.S market from 1986-1988.

They used the propensity score matching method, while underperformance characterizes equal-weight and buy-and-hold returns if traditional matching methods are used.

The results show that the abnormal returns after SEOs are not significantly different from zero with propensity score matching.

Also, it is shows that there is a clear underperformance reflect poor matching methods rather than an anomaly challenging the efficient market hypothesis.

Paskelian and Bell (2010) studied the long-run operating performance and the short-run market of seasoned equity offering in the Chinese market during the period from 1998 to 2001. The researchers demonstrate the analysis of the accounting performance and share of the companies that offered seasoned offering which listed in Chinese market in either private placements or right offerings.

The results show a significant and positive relationship between the changes in the operating performance and post offering abnormal stock returns in the firms that issuing private placement.

In addition, the results show that the firms issuing rights offering and private placement both experienced positive abnormal returns on the ex-date.

Shahid et al. (2010) examined announcement of different equity announcement for different equity and the stock price reaction in China. The researchers calculated the daily abnormal returns and CARs for the research sample consisting of 565 offerings of rights offerings and 152 observations of seasoned public offerings from 1998-2008.

The results show significantly positive average abnormal returns (AARs) in the period before announcement, and there is an observation of negative but insignificant (AARs) on event date. There is no abnormal performance was observed on and after board of directors (BOD) date, except in the second day (day 2). Results show for different event window periods around BOD meeting date the cumulative abnormal returns (CARs) is positive but insignificant for companies that use initial public offerings (IPOs). Also the results show average abnormal returns (AARs) in the period before announcement are positive and significantly different from zero but on the announcement date they are extremely significant and Negative.

Studies conducted in Emerging markets

Younes (1995) investigated the reaction of the stock prices when the Seasoned Equity was issued. The sample of the study consists of 21-seasoned offering for firms in Amman Stock Exchange, for the period 1991 to 1994.

The researcher tests and calculates issuance period abnormal returns for the study sample by using a standard event study methodology and employed Cross – sectional analysis test the effect of the type of issues and the price of shares on issuance period share prices decrease.

The results show that the investors observed a negative signals of shares announcement.

Limpaphayom and Ngamwutikul (2004) investigated the post – issue operating performance of seasoned equity offering for firms listed in Thailand Stock Exchange for the period of 1991-1994.

They found that insiders time the market by issuing equity when it is overvalued. In addition, the changes in operating performance measures show a significant post-issue operating performance declines among SEO firms.

Abu-Alhayja (2005) investigated the impact of SEO on stock prices. Therefore, it is considered that the short-term performance using the market model, the abnormal average return (AAR), and cumulative abnormal return equations (CAR) for a sample of 92 SEOs form the period 1992 to 2003, listed in ASE.

The research found a statistically significant decrease in share prices of issuers up to 4 days before and after the day of the announcement. In addition, a significant relationship exists between the unsystematic risk and the SEO issuance: however, there is a significant relationship between abnormal rate of return and SEO.

Aissia et al. (2009) investigated abnormal performance following seasoned equity offering in Tunisian stock market. They used investor utility function to calculate the abnormal returns of seasoned offering firms. Covering the period from 1998 to 2006 and verified whether the prospect

theory clarifies the negative abnormal performance observed following seasoned equity offering when this event reflects future growth opportunities.

The results show that the prospect theory fails to explain negative performance, and show that the utility function explains market over optimistic potential observed in prices the first year following the issue event.

Al-Rashdan (2011) examined the long-term supply of experienced participation (SEO) with a sample consists of 40 Jordanian industrial companies listed in Amman Stock Exchange, during the period 1997-2006. Moreover, the research examines the effect of long-term operating performance infirm size and industry subsector. The researcher also studied the Determinants of operating performance of SEO.

Wilcoxon test, Least Square regression, Random Effects model, and different financial ratios (return on equity (ROE), return on assets (ROA) were used, net profit margin (NPM),operating income on assets (OPA), and operating margin (OPM)) was used to study long-term operating performance.

The research results concluded that the performance of the long-term operation of industrial Jordanians companies that offer seasoned equity decrease after issue, as well as the operational performance differs when the analysis was performed for subsectors. In addition, the study reveals that large companies operating performance are better than small companies.

AlZu'bi (2014) examined the stock market reaction to SEOs on the short-run, looking for any statistically significant abnormal returns around SEOs. The researcher chooses a period from 2003 to 2012, with a sample consisting of industrial and financial companies in Jordanian market, in addition to the company's returns whether they are positive or negative. The researcher tests the stock market reaction to SEOs for a final sample of 50 seasoned offerings by using CAR equation and Event study methodology. The researcher uses both parametric and non-parametric tests to examine the statistical significance of the research results.

The research results show that there is a statistically significant decline in share prices up to four days before the issuance, and there are no statistically significant abnormal returns after SEOs.

Previous review on SEO indicates that a little work has been conducted in developing countries. The main problem that researcher faced is no research in the region of the study.

3.3. What distinguishes this study?

There is no research conducted about SEOs in the Gulf cooperation Council (GCC) markets. Therefore, this study will shed light on this important issue and will investigate the abnormal return around seasoned equity offerings SEOs for financial, insurance, and industrial firms in GCC markets in the short run. Thus, it focuses on the issuing date rather than the announcement date of SEOs. Moreover, it is applied on a longer and more recent period and tries to explain the anomalous reaction to SEOs if found. Chapter four conducts discussion of the research methodology, hypotheses, sample, and data collection process.

Chapter Four

Data and Methodology

Chapter Four

Data and Methodology

4.1 Introduction

This chapter presents the hypotheses of the study, the method of data collection, identification of the population, and sample used in this study are explained. The methodology used in the calculation of cumulative abnormal returns that may exist around the issue of seasoned equity offerings in the short term is explained. The methodology used to test the cumulative abnormal return (CAR) is presented.

4.2. Hypotheses of the study

As mentioned earlier, the aim of this study is to examine the stock market reaction to SEOs on the short- run, seeking for any statistically significant abnormal returns around SEOs. Therefore, the following hypotheses are formulated.

Null Hypothesis

H1: There are no significant abnormal returns before and after SEOs in GCC country.

Sub-hypothesis

H1a: There is no significant abnormal return until 21 days before SEOs in GCC.

H1b: There is a significant abnormal return until 21 days after SEOs in GCC.

H2a: There is no significant abnormal return until 21 days before SEO in Saudi market.

H2b: There is a significant abnormal return until 21 days after SEOs in Saudi market.

H3a: There is no significant abnormal return until 21 days before SEOs in Kuwait market.

H3b: There is a significant abnormal return until 21 days after SEOs in Kuwait market.

4.3. Data and Sample.

4.3.1. The Population of the Study

The study population includes all companies' listed in GCC markets. Oil and Petrochemical companies have been excluded because the market

capitalization are very large and their daily prices experience higher changes than the other sectors, which might cause bias in results.

4.3.2. The Sample of the Study

The sample of the study contains all firms that issue seasoned equity offering (SEOs), which are 66 (SEOs) from Saudi Arabia, Kuwait, Qatar, Oman, Dubai, Abu Dhabi and Bahrain. The data have been collected from secondary resources during the period from 2003 to 2012 in GCC markets.

The following table presents three main sectors (Financial, Insurance and Industrial) and the number of SEOs in each sector.

Table (4-1) SEOs issuance firms

Sector	No. of issuance firms
Financial	31
Insurance	13
Industrial	22
Total of issuance firms	66

The research uses the closing price of the shares of SEO companies for twenty-one days before and after the offering. Furthermore, the return of the market was obtained from secondary resources of the markets of the CCG database.

The return of the companies which issue SEOs is compared to the behavior of the market for these days (+21) and (-21) days to find if there is a return that is higher than the market return (abnormal return) or not.

4.3.3. Sample Characteristics.

To achieve the research objectives and to provide a test for the above-mentioned hypotheses, the sample must meet the following requirements:

1. The sample includes offering firms that already outstanding (excluding new firms).
2. The issuance is only for common stock.
3. Companies that issue SEOs must be listed in GCC markets before and after the SEOs issuance.

4.4. Methodology:

To measure the abnormal returns during issuing date, the use of the event study methodology is necessary because it is one of the tools used in financial research frequently. The main goal of an event study is to evaluate whether there are surplus abnormal returns obtained by shareholders associated with specific events like earning announcement, in which excessive or abnormal profit is the distinction among the observed return and that suitable given a specific return generating model.

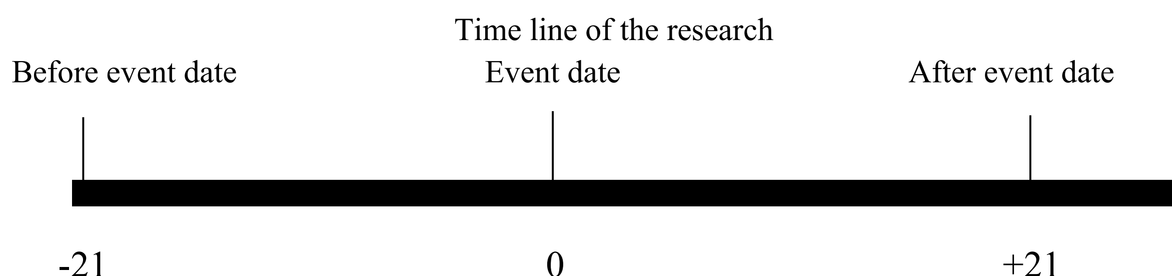
The aim of event research is to study the market response to a well-defined event through the observation of security prices around such event. The event often is related to the release of information to market participants through the financial press or through corporate releases (Peterson, 1989).

4.4.1. Identification of Time Parameters:

A standard event study is used for measuring the average impact of SEO on the stock prices of industrial, insurance and financial sector in GCC markets, where day zero is the date of issue. If no event happens, it must monitor the expected returns to normal returns. The normal yields are usually estimated over a period at once surrounding the event date. To analyze and measure the abnormal returns in this study, the estimated period is obtainable in a form of before and after the event. Applications that are supposed to change the determinants of the event because the estimation period can track the event or to perform some form of before and after information period event.

The timeline for this research is shown in Figure 4-1, the use of a period before and after the event (date of issue).

Figure (4-1)



Where:

-21: the first period used to estimate the abnormal return.

0: the event date.

21: the last period used in the estimation of abnormal return.

The (-21) and (+21) are selected such that any changes detected in share prices should be carried out during this period (Peterson, 1989).

The daily returns for all events in the search window are calculated as follows:

$$R_{it} = (P_t - P_{t-1})/P_{t-1} \quad \ldots\ldots\ldots\ldots (4, 1)$$

Where:

R_{it}: daily return.

P_t: is the closing price of the stock at day t.

P_{t-1}: is the closing price of the stock at day t-1.

The benchmark-adjusted return

The adjusted return has been calculated for issue for event in the research window by subtracting the actual return from the market return (Denis and Sarin, 2001).

Where:

$$AR_{it} = R_{it} - R_{mkt,t} \quad \ldots\ldots\ldots\ldots (4, 2)$$

AR_{it}: abnormal return of stock i at time t.

R_{it}: return on stock i at time t.

$R_{mkt,t}$: return on market index at time t.

The Average Benchmark –Return

The average benchmark return on a portfolio of N firms for the daily event is the equally weighted average benchmark adjusted returns, and is calculated as follows:

$$\overline{\boldsymbol{ARt}} = \frac{1}{N}\sum_{i=1}^{N} ARi,t \ldots\ldots. (4.3)$$

Where:

$\overline{\boldsymbol{ARt}}$: is the equally weighted mean of the benchmark-returns.

The Cumulative Abnormal Return (CAR) for a certain period from day (i) to day (1) by adding the average rate of return over the time window:

$$\text{CARt} = \sum_{t=1}^{T} AR \ldots\ldots (4, 4)$$

Where:

CARt: Cumulative Abnormal Return from day (1) to day (t).

After that, to test for significant AR, find the t-statistic:

$\overline{\boldsymbol{AR}}$ = *T AR / n*

SE = *SD / (n^.5)*

T-statistic = *ARt mean / SEt*

If t-statistic > AR …. There is a significant abnormal return, over performance and underpricing (Peterson, 1989).

4.5. Period of the study

The period is between 2003 to 2012, representing the period of the first day of the list of companies to the last day of available data.

The following chapter conducts the empirical results of the study.

Chapter Five

Empirical Results

Chapter Five

Empirical Results

5.1. Introduction

In this chapter, the results of the analysis of the performance of SEOs in GCC market for the time window before and after the issuance day. Cumulative Abnormal Return (CAR) was used to present the results.

5.2. Measuring Short- Run performance using Cumulative Abnormal Returns (CARs)

By applying, the methodology that was reported in chapter 4, the daily return for each SEO is calculated for 21 days before and for 21 after the issuing day. According to equation (4-1) in chapter 4, section 1, the rate of return is calculated as the rate of difference between closing price of day (t) and closing price of day (t-1).

For the General Index benchmark, the daily return of the General Index has been calculated in the same way as the difference between closing price of index for day (t) and the closing price of index for day (t-1).

Then we calculated the abnormal return (AR) by subtracting the General Index return from the market-adjusted returns, as in equation (4-2).

5.3. Descriptive Statistics

The descriptive statistics of the SEOs before issuing day are presented in table (5-1). The mean ARs are positive in all 21 day before the issuance day.

Table (5-1) abnormal return, cumulative abnormal return, and t-stat in GCC before SEO.

Day	AR	CAR	t-stat
D -1	**0.012677 ****	**0.012677**	**.138123**
D -2	**0.014012 ***	**0.026689**	**.151468**
D -3	0.009537	0.036226	.103739
D -4	0.008655	0.044881	.093974
D -5	**0.012622 *****	**0.057503**	**.137573**
D -6	0.016093	0.073597	.174982
D -7	0.009785	0.083382	.106148
D -8	**0.013453 *****	**0.096835**	**.146578**
D -9	0.016105	0.11294	.175228
D -10	0.009745	0.122685	.106321
D -11	**0.011648 *****	**0.134333**	**.127104**
D -12	0.025279	0.159611	.272408
D -13	0.002249	0.161861	.024179
D -14	0.015678	0.177539	.170833
D -15	0.014768	0.192307	.160498
D -16	0.021079	0.213385	.233084
D -17	0.012365	0.225751	.134622
D -18	0.003173	0.228923	.033116
D -19	0.013061	0.241984	.138971
D -20	0.00802	0.250004	.082322
D -21	0.014444	0.264449	.159662

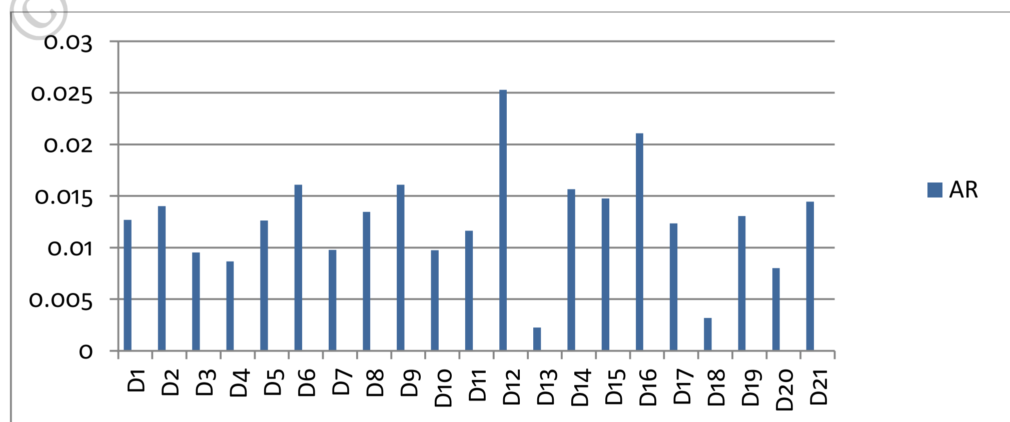
- Bold line indicates that the AR is significant. (Denotes the significant level at * 1%, ** 5%, *** 10%)

This table presents daily abnormal return (ARs), cumulative abnormal returns (CARs), and t-statics for day before the issuance day for SEOs occurring between 2003 and 2012.

The results show that positive significant and overpricing AR for all day before announcement day. The results indicate that there is slow spreading of information in market before announcement; these results are consistent with the results of Li and Zhao (2006) and Shahid (2010) study about Chinese market; which shows that the AR in preannouncement period is positive and significant, but it is different from Abu- Alhayja (2005): a study of Amman stock exchange that report negative abnormal return and underpricing but significant after the announcement of SEOs.

The following figure shows the movement of the abnormal returns during 21 days before the SEO issuance:

Figure (5-1) GCC ARs before SEOs.



Source: developed by the researcher

The figure shows the movement of the abnormal returns during 21 days before the SEO issuance. It shows fluctuation from day 1 until day 12 increased in AR, after that declined in day 13, then the AR fluctuated until day 21.

The following table presents AR and CAR after SEO.

Table (5-2) abnormal return, cumulative abnormal return and t-stat in GCC after SEO.

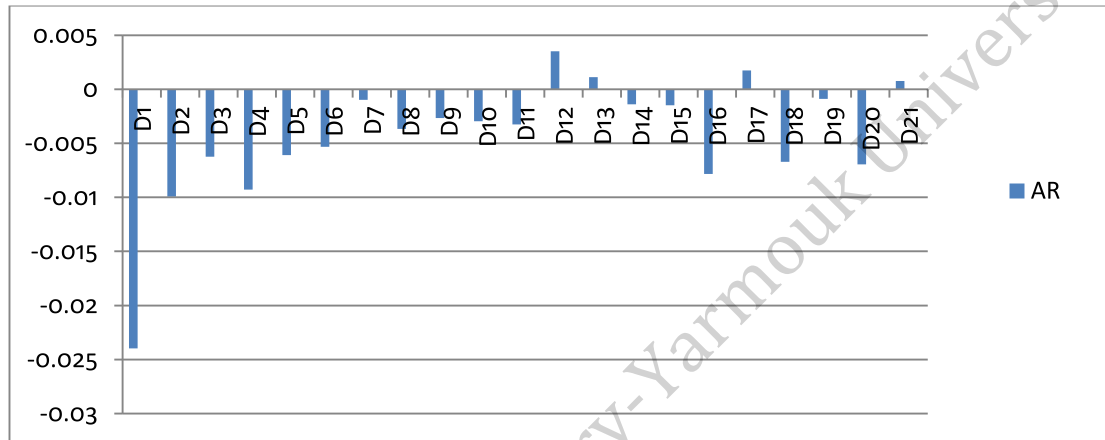
Day	AR	CAR	t-stat
D +1	-0.02396	-0.02396	-.21197
D +2	**-0.00991 *** **	**-0.03388**	**-.10141**
D +3	-0.00624	-0.04012	-.06373
D +4	**-0.00929 *** **	**-0.04941**	**-.09517**
D +5	-0.0061	-0.0555	-.06231
D +6	-0.00533	-0.06083	-.05458
D +7	-0.00097	-0.06181	-.00991
D +8	-0.00367	-0.06547	-.03748
D +9	-0.00267	-0.06815	-.02735
D +10	-0.00296	-0.07111	-.03032
D +11	-0.00325	-0.07436	-.0332
D +12	0.003522	-0.07083	.035966
D +13	**0.001118 *** **	**-0.06972**	**.011432**
D +14	-0.0014	-0.07112	-.01447
D +15	-0.00147	-0.07259	-.01501
D +16	**-0.00784 *** **	**-0.08043**	**-.08024**
D +17	0.001751	-0.07868	.017963
D +18	-0.0067	-0.08538	-.06865
D +19	-0.00088	-0.08626	-.00905
D +20	**-0.00695 ** **	**-0.09322**	**-.0713**
D +21	0.000765	-0.09245	.007814

- Bold line indicates that the AR is significant. (Denotes the significant level at * 1%, ** 5%, *** 10%)

The results show nonsignificant negative abnormal return after the issuance day. The results show that nonsignificant negative AR for all day after

issuance day except in days 12, 13, 17 and 21. In these days, there was significant positive AR. The next figure shows the movement of the abnormal returns during 21 days after the SEO:

Figure (5-2) GCC ARs after SEOs.



Source: developed by the researcher

This figure shows the movement of the abnormal returns during 21 days after the SEO. It shows decreasing from day 1 until day 3, increasing in AR in day 4, and then the AR fluctuated until day 21. ARs are positive in D12, 13, 17, 21.

To see if SEO performance is different between GCC markets, the following section provides the analysis for Saudi Arabia market and Kuwait market. Separately the selection of these markets is due to sample size and data availability.

5.3.1. Saudi Arabia Market

The Saudi market is considered the biggest market in GCC countries.

In the research sample, SEOs present a high percentage of sample size (16 firms). The next table shows the results of data analysis of the Saudi market before SEO issue:

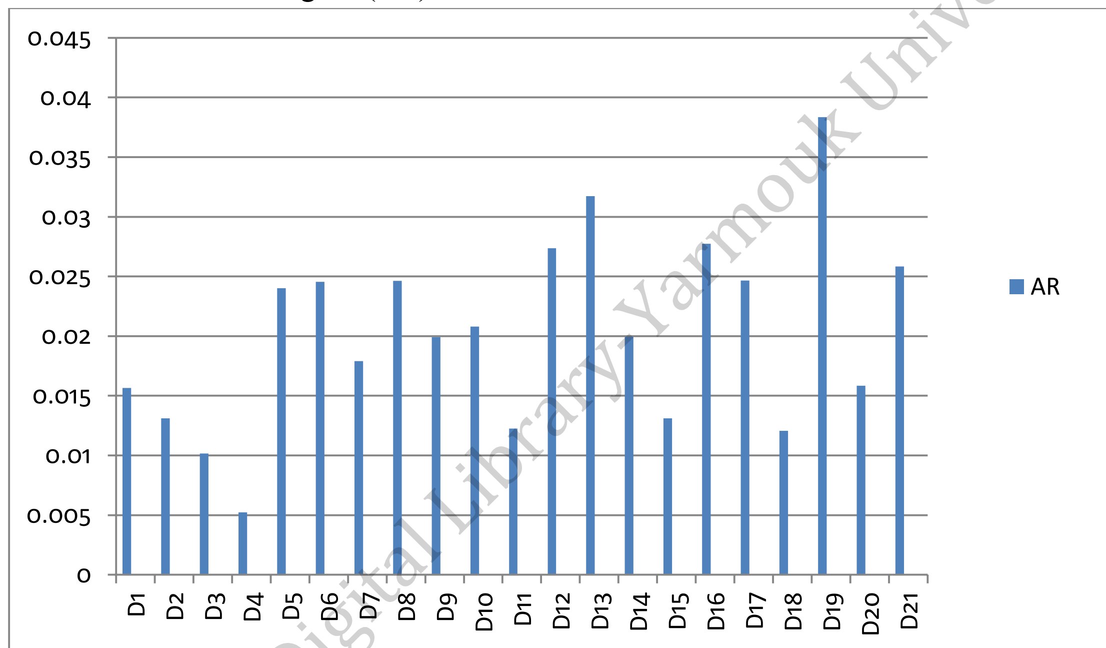
Table (5-3) Abnormal Return, Cumulative Abnormal Return, and T-Stat in Saudi market before SEO.

Day	AR	CAR	t-stat
D -1	**0.015663 ***	**0.015663**	**1.000984**
D -2	**0.013114 ***	**0.028777**	**0.758406**
D -3	**0.010151 ***	**0.038928**	**0.635602**
D -4	**0.005225 ***	**0.044153**	**0.290134**
D -5	**0.024008 *****	**0.068161**	**1.476001**
D -6	**0.024549 *****	**0.09271**	**1.434382**
D -7	**0.017893 ***	**0.110603**	**1.020392**
D -8	**0.024643 ***	**0.135246**	**1.330323**
D -9	**0.019919 ***	**0.155165**	**1.075673**
D -10	**0.020806 *******	**0.175971**	**1.030195**
D -11	**0.012263 *****	**0.188234**	**0.58034**
D -12	**0.027358 ***	**0.215593**	**1.292697**
D -13	**0.031741 ***	**0.247333**	**1.486805**
D -14	**0.019933 *****	**0.267267**	**0.927703**
D -15	**0.01311 ***	**0.280376**	**0.541026**
D -16	**0.027742 *****	**0.308118**	**1.256141**
D -17	**0.024662 ***	**0.33278**	**1.082805**
D -18	**0.012063 *****	**0.344843**	**0.482601**
D -19	**0.038337 *****	**0.38318**	**1.591783**
D -20	**0.015835 *****	**0.399015**	**0.615724**
D -21	**0.025833 ***	**0.424849**	**1.000565**

- Bold line indicates that the AR is significant. (Denotes the significant level at * 1%, ** 5%, *** 10%)

Table (5-3) show the results in Saudi market before SEO issuance, which indicates that the ARs are positive significant and overpricing for all day before announcement day. The following figure shows the movement of the abnormal returns during 21 days before the SEO issuance:

Figure (5-3) Saudi market ARs before SEOs.



Source: developed by the researcher

This figure shows the movement of the abnormal returns during 21 days before the SEO issuance in Saudi market. It shows decline from day 1to day 4, then increase in day 5 and day six. This shows AR fluctuating in all days until day 21.

The following table shows the results of data analysis of the Saudi market after SEO issue:

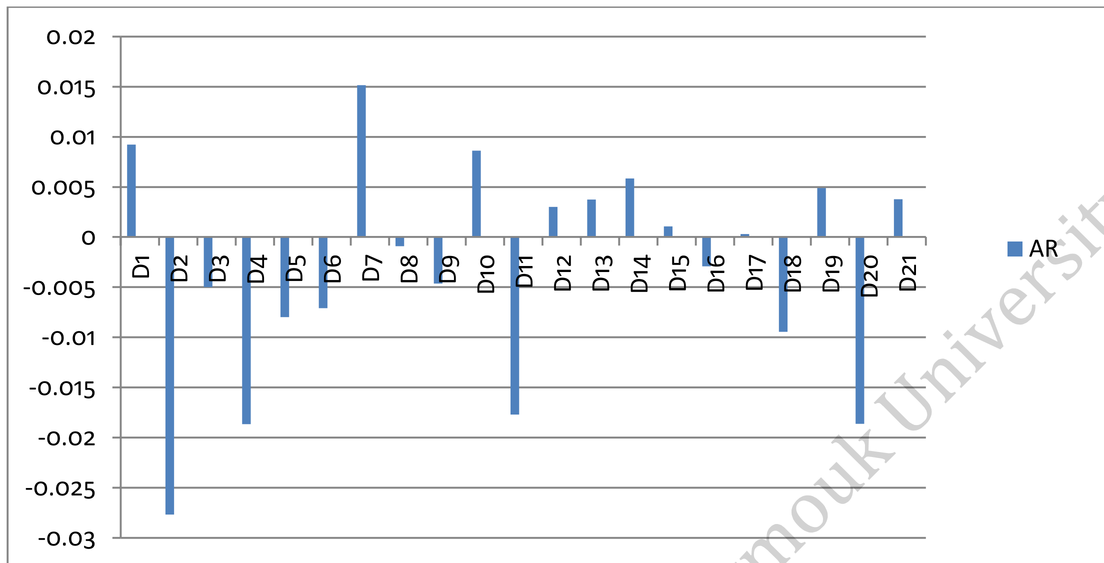
Table (5-4) abnormal return, cumulative abnormal return, and t-stat in Saudi market after SEO.

Day	AR	CAR	t-stat
D +1	0.009228	0.009228	0.29715
D +2	-0.02766	-0.01843	-1.33836
D +3	-0.005	-0.02343	-0.60259
D +4	-0.01865	-0.04208	-2.47082
D +5	-0.00798	-0.05006	-1.56969
D +6	-0.0071	-0.05716	-0.77087
D +7	**0.015139 ***	**-0.04202**	**1.060379**
D +8	-0.00091	-0.04294	-0.15916
D +9	-0.00463	-0.04757	-1.08975
D +10	**0.008632 ******	**-0.03894**	**1.401091**
D +11	-0.0177	-0.05664	-3.04908
D +12	0.003019	-0.05362	0.340713
D +13	**0.003735 *******	**-0.04989**	**0.496424**
D +14	0.005856	-0.04403	1.60027
D +15	0.001079	-0.04295	0.186183
D +16	**-0.0029 *******	**-0.04586**	**-0.31649**
D +17	0.000295	-0.04556	0.052335
D +18	-0.00943	-0.05499	-2.37058
D +19	0.004904	-0.05008	0.568038
D +20	-0.01861	-0.0687	-1.9057
D +21	**0.003789 *******	**-0.06491**	**0.481655**

- Bold line indicates that the AR is significant. (Denotes the significant level at * 1%, ** 5%, *** 10%)

Table (5-4) shows the results in Saudi market after SEO issuance, which indicates that the ARs are significant in day 1,7,10,12,13,14,15,17,19 and 21 after issuing SEOs. In the other days, the ARs are negative and not significant. The following figure shows the movement of the abnormal returns during 21 days after the SEO issuance:

Figure (5-4) Saudi market ARs After SEOs



Source: developed by the researcher

This figure shows the movement of the abnormal returns during 21 days after the SEO issuance in Saudi market. It shows that the ARs are negative in day 2,3,4,5,6,8,9,11,16,18 and 20. The ARs are positive in day 1, 7, 10, 12, 13,14,15,19, and 21 to be positive.

5.3.2. Kuwait Market

Kuwait market considers as one of the most developed and growth gulf markets in the last years, and it ranked second in term of the size of financial market in the sample (12 firms) after Saudi Arabia market.

The next table shows the results of data analysis of the Kuwait market before SEO issuance:

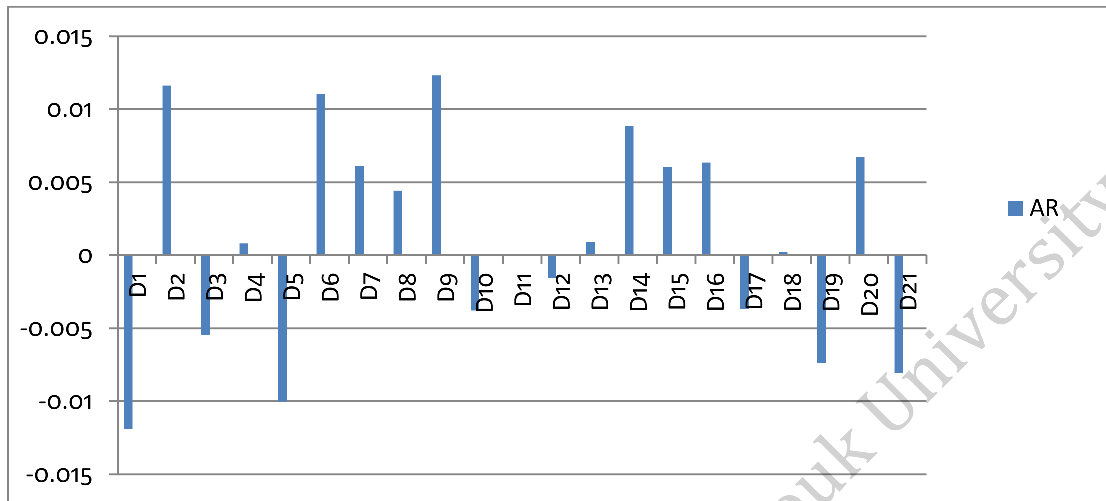
Table (5-5) abnormal return, cumulative abnormal return and t-stat in Kuwait market before SEO.

Day	AR	CAR	t-stat
D -1	-0.01189	-0.01189	-1.44102
D -2	0.011617	-0.00027	1.712525
D -3	-0.00545	-0.00572	-0.93755
D -4	0.000805	-0.00492	0.066477
D -5	**-0.01001 *** **	**-0.01493**	**-1.12779**
D -6	0.011042	-0.00388	1.343686
D -7	0.006114	0.002231	1.004653
D -8	0.004428	0.006658	0.486153
D -9	0.012333	0.018991	0.995157
D -10	-0.00378	0.015216	-0.25896
D -11	0.000035	0.015181	-0.00341
D -12	**-0.00154 ** **	**0.013645**	**-0.20307**
D -13	**0.000899 ** **	**0.014544**	**0.145089**
D -14	**0.008859 *** **	**0.023403**	**1.4412**
D -15	0.00605	0.029453	1.167229
D -16	0.006355	0.035809	1.239528
D -17	-0.00369	0.032117	-0.80846
D -18	0.000235	0.032352	0.05478
D -19	-0.00738	0.024976	-1.15343
D -20	0.006752	0.031728	1.477489
D -21	-0.00804	0.023684	-1.78832

- Bold line indicates that the AR is significant. (Denotes the significant level at * 1%, ** 5%, *** 10%)

Table (5-5) show the results in Kuwait market before SEO issuance, which indicates that the ARs are significant in day -2,-4,-6,-7,-8,-9,-13,-14, -15,-16,-18and -20 before issuing SEOs. For other days the ARs were negative and not significant. The following figure shows the movement of the abnormal returns during 21 days before the SEO issuance:

Figure (5-5) Kuwait market ARs before SEOs.



Source: developed by the researcher

This figure shows the movement of the abnormal returns during 21 days before the SEO issuance in Kuwait market. Results show that the ARs are negative in day 1, 3,5,10, 12, 17, 19, and 21. The rest of days are positive.

The following table shows the results of data analysis of the Kuwait market after SEO issue:

Table (5-6) abnormal return, cumulative abnormal return and t-stat in Kuwait market after SEO.

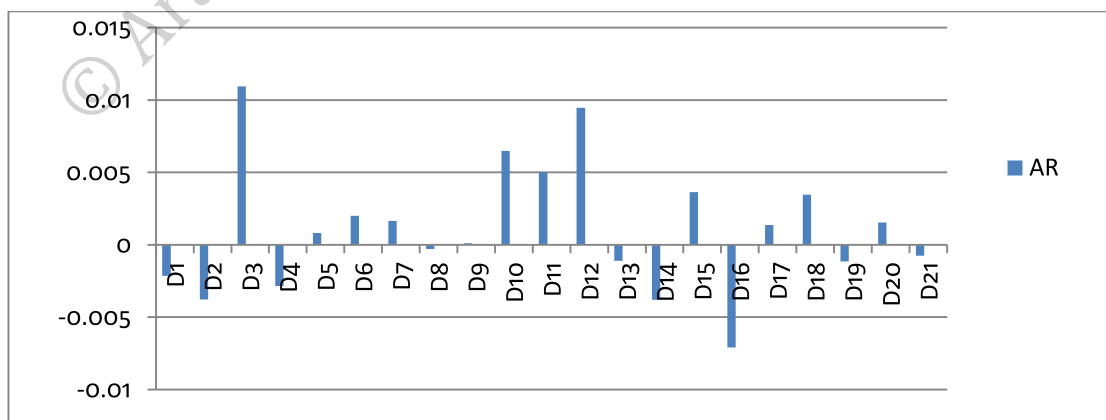
Day	AR	CAR	t-stat
D +1	-0.00214	-0.00214	-0.33845
D +2	-0.00378	-0.00592	-0.64389
D +3	0.010943	0.00502	1.775807
D +4	-0.00285	0.002173	-0.71894
D +5	0.000811	0.002984	0.089623
D +6	0.002013	0.004997	0.415914
D +7	**0.001653 *** **	**0.00665**	**0.443829**
D +8	-0.00029	0.006356	-0.04065
D +9	.000097	0.006259	-0.01232
D +10	0.00649	0.012749	0.702367
D +11	0.00501	0.017758	0.529579

D +12	0.009457	0.027215	0.658552
D +13	-0.0011	0.026111	-0.15665
D +14	-0.00381	0.022301	-0.46551
D +15	0.003631	0.025932	0.481174
D +16	**-0.00709 *****	**0.01884**	**-1.04306**
D +17	0.001364	0.020203	0.205423
D +18	**0.003451 *****	**0.023655**	**0.624018**
D +19	-0.00116	0.022498	-0.23507
D +20	0.001533	0.024031	0.234196
D +21	**-0.00076 *****	**0.023268**	**-0.10365**

- Bold line indicates that the AR is significant. (Denotes the significant level at * 1%, ** 5%, *** 10%)

Table (5-6) show the results in Kuwait market after SEO issuance, which indicates that the ARs are significant in day3, 5, 6, 7, 10, 11, 12, 15, 17, 18 and 20after issuing SEOs. In the other days, the ARs were negative and not significant. The following figure shows the movement of the abnormal returns during 21 days after the SEO issuance:

Figure (5-6) Kuwait market ARs after SEOs.



Source: developed by the researcher

This figure shows the movement of the abnormal returns during 21 days after the SEO issuance in Kuwait market. It shows that the ARs are negative in day 1, 2, 4,8,13,14,16,19, and 21. The rest of days are positive.

The following chapter presents the research conclusion and the recommendations.

Chapter Six

Conclusions and Recommendations

Chapter Six

Conclusions and Recommendations

6.1. Introduction

This chapter presents study conclusions and recommendations.

6.2. Summary and Conclusions

As indicated earlier, this study aims to investigate the short run performance of SEOs in GCC countries covering the period from 2003 to 2012. It shows if there are any statistically significant abnormal returns before and after SEOs for a sample consisting of GCC markets.

To achieve the goals, daily return (ri), daily abnormal return (AR), Cumulative abnormal return (CAR), and t-test are calculated. By using CAR method, results report that the ARs are positive significant and overpricing for all day before announcement day, and show that the AR is negative non-significant for all days after issuance day unless in days 1,7,10,12,13,14,15,17,19 and 21.

The results of the statistical testing show a statistical significance concerning a decline in the prices of the stocks of the issuing firms after announcement occurring. Also, results indicate SEO overpriced, the original prices for the shares of company under investigation are overpriced; hence

one can conclude fair pricing in GCC country does not exist. This has its implication on market efficiency.

By applying the statistical analysis of the data, the researcher finds that the second Sub-hypothesis (H1b), which indicates that there is a significant relationship between SEO and abnormal rate of return until 21 days after SEOs abnormal returns.

Saudi Arabia market indicates that the ARs are positive and significant for all days before issuing SEOs, and it indicates that the ARs
are significant in day 1,7,10,12,13,14,15,17,19 and 21 after issuing SEOs. It also reports that in the other days the ARs were negative and not significant. The results are similar to the GCC countries in performance in the short run, where it is significant before the issuance of SEO, it is not significant after SEOs issuing.

In Kuwait market the results report that before SEO issuance, the ARs are significant in day -2,-4,-6,-7,-8,-9,-13,-14, -15,-16,-18and -20. In the other days, the ARs were negative and not significant, and results indicate that the ARs are significant in day 1, 2, 3, 6, 8, 9, 13, 14, 17, 19 and 21after issuing SEOs. The other days, the ARs were negative and not significant.

In Kuwait market, the performance varies from Saudi and GCC markets. It has a significant performance before and after the SEO issue.

The results of the study are varying from Abu- Alhayja (2005) A Study of Amman Stock Exchange. The study investigates the stock performance to SEO. The results report that there is a positive abnormal return before the announcement but not significant, and negative abnormal return but significant after the announcement of SEOs.

The research results are similar to Li and Zaho (2006) Shahid (2010) a study about Chinese market. The results show that the AR in preannouncement period is positive and significant.

6.3. Recommendations

1- In GCC markets, Investors may invest before the issuance of seasoned equity offering, because the performance of stock is overpricing.

2- The investment strategies that are based on SEO are not profitable in the short term.

3- In Saudi market, investors can invest in short run investment before the SEO announcement.

4- In Kuwait market, investors can invest in long run investment because of the fluctuation of the performance of stocks.

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Appendices

Appendix (1) Descriptive Statistics of GCC data before SEO issuance

DAY	AVG	STD	SE	T	TAR	CAR
D-1	0.012677	0.745605	0.091778	.138123	0.012677	0.012677
D-2	0.014012	0.751529	0.092507	.151468	0.014012	0.026689
D-3	0.009537	0.746848	0.091931	.103739	0.009537	0.036226
D-4	0.008655	0.748245	0.092103	.093974	0.008655	0.044881
D-5	0.012622	0.745377	0.09175	.137573	0.012622	0.057503
D-6	0.016093	0.747187	0.091972	.174982	0.016093	0.073597
D-7	0.009785	0.748905	0.092184	.106148	0.009785	0.083382
D-8	0.013453	0.745623	0.09178	.146578	0.013453	0.096835
D-9	0.016105	0.746669	0.091909	.175228	0.016105	0.11294
D-10	0.009745	0.744632	0.091658	.106321	0.009745	0.122685
D-11	0.011648	0.744503	0.091642	.127104	0.011648	0.134333
D-12	0.025279	0.753889	0.092797	.272408	0.025279	0.159611
D-13	0.002249	0.755735	0.093024	.024179	0.002249	0.161861
D-14	0.015678	0.745579	0.091774	.170833	0.015678	0.177539
D-15	0.014768	0.747518	0.092013	.160498	0.014768	0.192307
D-16	0.021079	0.734689	0.090434	.233084	0.021079	0.213385
D-17	0.012365	0.746221	0.091853	.134622	0.012365	0.225751
D-18	0.003173	0.778312	0.095804	.033116	0.003173	0.228923
D-19	0.013061	0.763514	0.093982	.138971	0.013061	0.241984
D-20	0.00802	0.791482	0.097425	.082322	0.00802	0.250004
D-21	0.014444	0.734964	0.090468	.159662	0.014444	0.264449

Appendix (2) Descriptive Statistics of GCC data after SEO issuance

DAY	AVG	STD	SE	T	TAR	CAR
D1	-0.02396	0.918496	0.113059	-.21197	-0.02396	-0.02396
D2	-0.00991	0.794259	0.097766	-.10141	-0.00991	-0.03388
D3	-0.00624	0.795492	0.097918	-.06373	-0.00624	-0.04012
D4	-0.00929	0.792925	0.097602	-.09517	-0.00929	-0.04941
D5	-0.0061	0.794739	0.097826	-.06231	-0.0061	-0.0555
D6	-0.00533	0.793317	0.097651	-.05458	-0.00533	-0.06083
D7	-0.00097	0.796344	0.098023	-.00991	-0.00097	-0.06181
D8	-0.00367	0.795208	0.097883	-.03748	-0.00367	-0.06547
D9	-0.00267	0.793762	0.097705	-.02735	-0.00267	-0.06815
D10	-0.00296	0.793727	0.097701	-.03032	-0.00296	-0.07111
D11	-0.00325	0.794686	0.097819	-.0332	-0.00325	-0.07436
D12	0.003522	0.795552	0.097926	.035966	0.003522	-0.07083
D13	0.001118	0.794254	0.097766	.011432	0.001118	-0.06972
D14	-0.0014	0.788698	0.097082	-.01447	-0.0014	-0.07112
D15	-0.00147	0.793117	0.097626	-.01501	-0.00147	-0.07259
D16	-0.00784	0.794299	0.097771	-.08024	-0.00784	-0.08043
D17	0.001751	0.791931	0.09748	.017963	0.001751	-0.07868
D18	-0.0067	0.79334	0.097653	-.06865	-0.0067	-0.08538
D19	-0.00088	0.79003	0.097246	-.00905	-0.00088	-0.08626
D20	-0.00695	0.792254	0.09752	-.0713	-0.00695	-0.09322
D21	0.000765	0.79575	0.09795	.007814	0.000765	-0.09245

Appendix (3) Descriptive Statistics of Saudi market data before SEO issuance

DAY	AVG	STD	SE	T	TAR	CAR
D-1	0.015663	0.062591	0.015648	1.000984	0.015663	0.015663
D-2	0.013114	0.069167	0.017292	0.758406	0.013114	0.028777
D-3	0.010151	0.063881	0.01597	0.635602	0.010151	0.038928
D-4	0.005225	0.072036	0.018009	0.290134	0.005225	0.044153
D-5	0.024008	0.065063	0.016266	1.476001	0.024008	0.068161
D-6	0.024549	0.068458	0.017115	1.434382	0.024549	0.09271
D-7	0.017893	0.070143	0.017536	1.020392	0.017893	0.110603
D-8	0.024643	0.074096	0.018524	1.330323	0.024643	0.135246
D-9	0.019919	0.074071	0.018518	1.075673	0.019919	0.155165
D-10	0.020806	0.080784	0.020196	1.030195	0.020806	0.175971
D-11	0.012263	0.084525	0.021131	0.58034	0.012263	0.188234
D-12	0.027358	0.084655	0.021164	1.292697	0.027358	0.215593
D-13	0.031741	0.085393	0.021348	1.486805	0.031741	0.247333
D-14	0.019933	0.085947	0.021487	0.927703	0.019933	0.267267
D-15	0.01311	0.096925	0.024231	0.541026	0.01311	0.280376
D-16	0.027742	0.08834	0.022085	1.256141	0.027742	0.308118
D-17	0.024662	0.091105	0.022776	1.082805	0.024662	0.33278
D-18	0.012063	0.099984	0.024996	0.482601	0.012063	0.344843
D-19	0.038337	0.096337	0.024084	1.591783	0.038337	0.38318
D-20	0.015835	0.102871	0.025718	0.615724	0.015835	0.399015
D-21	0.025833	0.103274	0.025819	1.000565	0.025833	0.424849

Appendix (4) Descriptive Statistics of Saudi market data after SEO issuance

DAY	AVG	STD	SE	T	TAR	CAR
D1	0.009228	0.124216	0.031054	0.29715	0.009228	0.009228
D2	-0.02766	0.082657	0.020664	-1.33836	-0.02766	-0.01843
D3	-0.005	0.033195	0.008299	-0.60259	-0.005	-0.02343
D4	-0.01865	0.03019	0.007548	-2.47082	-0.01865	-0.04208
D5	-0.00798	0.020343	0.005086	-1.56969	-0.00798	-0.05006
D6	-0.0071	0.036854	0.009214	-0.77087	-0.0071	-0.05716
D7	0.015139	0.03089	0.007723	1.960379	0.015139	-0.04202
D8	-0.00091	0.022953	0.005738	-0.15916	-0.00091	-0.04294
D9	-0.00463	0.017004	0.004251	-1.08975	-0.00463	-0.04757
D10	0.008632	0.024644	0.006161	1.401091	0.008632	-0.03894
D11	-0.0177	0.023225	0.005806	-3.04908	-0.0177	-0.05664
D12	0.003019	0.035439	0.00886	0.340713	0.003019	-0.05362
D13	0.003735	0.030098	0.007524	0.496424	0.003735	-0.04989
D14	0.005856	0.014638	0.00366	1.60027	0.005856	-0.04403
D15	0.001079	0.023184	0.005796	0.186183	0.001079	-0.04295
D16	-0.0029	0.036693	0.009173	-0.31649	-0.0029	-0.04586
D17	0.000295	0.022542	0.005635	0.052335	0.000295	-0.04556
D18	-0.00943	0.015908	0.003977	-2.37058	-0.00943	-0.05499
D19	0.004904	0.03453	0.008632	0.568038	0.004904	-0.05008
D20	-0.01861	0.039065	0.009766	-1.9057	-0.01861	-0.0687
D21	0.003789	0.031464	0.007866	0.481655	0.003789	-0.06491

Appendix (5) Descriptive Statistics of Kuwait market data before SEO issuance

DAY	AVG	STD	SE	T	TAR	CAR
D-1	-0.01189	0.028573	0.003517	-3.37948	-0.01189	-0.01189
D-2	0.011617	0.023498	0.002892	4.016227	0.011617	-0.00027
D-3	-0.00545	0.020142	0.002479	-2.19875	-0.00545	-0.00572
D-4	0.000805	0.041946	0.005163	.155903	0.000805	-0.00492
D-5	-0.01001	0.030732	0.003783	-2.64489	-0.01001	-0.01493
D-6	0.011042	0.028466	0.003504	3.151224	0.011042	-0.00388
D-7	0.006114	0.021082	0.002595	2.35612	0.006114	0.002231
D-8	0.004428	0.031548	0.003883	1.140129	0.004428	0.006658
D-9	0.012333	0.04293	0.005284	2.33385	0.012333	0.018991
D-10	-0.00378	0.0505	0.006216	-.60732	-0.00378	0.015216
D-11	-.003498	0.035581303	0.004379756	-.0079	-.003498	0.015251
D-12	-0.00154	0.026193	0.003224	-.47625	-0.00154	0.013715
D-13	0.000899	0.021456	0.002641	.340265	0.000899	0.014614
D-14	0.008859	0.021294	0.002621	3.379913	0.008859	0.023473
D-15	0.00605	0.017956	0.00221	2.737396	0.00605	0.029523
D-16	0.006355	0.017761	0.002186	2.906952	0.006355	0.035879
D-17	-0.00369	0.015818	0.001947	-1.896	-0.00369	0.032187
D-18	0.000235	0.014877	0.001831	.128469	0.000235	0.032422
D-19	-0.00738	0.022154	0.002727	-2.70503	-0.00738	0.025046
D-20	0.006752	0.015832	0.001949	3.465019	0.006752	0.031798
D-21	-0.00804	0.015581	0.001918	-4.19397	-0.00804	0.023754

Appendix (6) Descriptive Statistics of Kuwait market data after SEO issuance

DAY	AVG	STD	SE	T	TAR	CAR
D1	0.001692	0.021935	0.0027	0.263384	0.001692	0.001692
D2	0.000871	0.020355	0.002506	0.090781	0.000871	0.002563
D3	0.013452	0.021347	0.002628	2.926741	0.013452	0.016015
D4	-0.01254	0.013714	0.001688	-1.67526	-0.01254	0.003473
D5	-0.00833	0.031349	0.003859	-1.24146	-0.00833	-0.00485
D6	0.003095	0.016763	0.002063	0.418833	0.003095	-0.00176
D7	-0.0053	0.012902	0.001588	-0.54695	-0.0053	-0.00706
D8	0.007285	0.025037	0.003082	0.579719	0.007285	0.000222
D9	0.00346	0.027473919	0.003382	0.326364	0.00346	0.003681
D10	-0.01432	0.03201	0.00394	-2.00437	-0.01432	-0.01064
D11	-0.01172	0.032769	0.004034	-2.08051	-0.01172	-0.02236
D12	-0.00109	0.049746	0.006123	-0.11708	-0.00109	-0.02345
D13	0.011281	0.02442	0.003006	1.973562	0.011281	-0.01217
D14	0.002168	0.028352	0.00349	0.294882	0.002168	-0.01
D15	-0.01945	.026141	0.003218	-2.29494	-0.01945	-0.02945
D16	-0.01926	0.023554	0.002899	-2.08693	-0.01926	-0.04871
D17	0.019248	0.022993	0.00283	2.179924	0.019248	-0.02946
D18	-0.00743	0.019159	0.002358	-1.71265	-0.00743	-0.0369
D19	0.011504	0.017044	0.002098	1.644939	0.011504	-0.02539
D20	-0.00576	0.022677	0.002791	-0.64211	-0.00576	-0.03115
D21	0.011954	0.025504	0.003139	1.564258	0.011954	-0.0192

" ردة فعل الاسواق الماليه للاصدارات الموسميه :

دراسة حاله دول مجلس التعاون الخليجي "

الملخص

تهدف هذه الرساله لدراسة ردة فعل السوق للاصدارات الموسميه قصيرة الأجل، وتسعى للبحث عن عوائدغيرطبيعية ذات دلالة إحصائية حول الاصدارات الموسميه لعينة من الشركات المالية وغيرالمالية المدرجه في اسواق دول مجلس التعاون الخليجي، و كذلك تم التركيز على دراسة فيما اذا كانت العائدات ايجابيه او سلبيه و ذلك للفتره من 2012 – 2003.

ثم باستخدام معادلات العائد فوق الطبيعي التراكمي (CAR) كمقياس للأداء للعينه النهائيه المكونه من 66 شركه، و اتباع منهجية الحدث في قياس مدى الدلاله الاحصائيه للعوائد الفوق طبيعيه، حيث وجدت الدراسه وجود عوائد موجبه و ذات دلاله غير احصائيه قبل الاصدار و عوائد سالبه ذات دلاله احصائيه بعد الاصدار.

الكلمات المفتاحيه: الاصدارات الموسميه، العائد فوق الطبيعي، دول مجلس التعاون الخليجي.